

THE BASIC FUND

JUNE 30, 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The BASIC Fund

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
THE BASIC FUND
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **THE BASIC FUND (the Fund)** which comprise the statement of financial position as of June 30, 2016, the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Fund as of June 30, 2016, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Fund's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
February 15, 2017

The BASIC Fund

Statement of Financial Position

<i>June 30, 2016 (with comparative totals for 2015)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 2,313,983	\$ 2,806,477
Interest receivable	25,250	17,005
Contributions receivable, net	2,416,790	2,406,597
Investments	13,839,496	12,716,270
Prepaid expenses	22,196	48,065
Fixed assets	7,857	17,271
Total assets	\$ 18,625,572	\$ 18,011,685
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 13,220	\$ 19,431
Total liabilities	13,220	19,431
Net Assets:		
Unrestricted - designated for scholarships	333,425	2,132,061
Temporarily restricted	18,278,927	15,860,193
Total net assets	18,612,352	17,992,254
Total liabilities and net assets	\$ 18,625,572	\$ 18,011,685

See accompanying notes to financial statements.

The BASIC Fund

Statement of Activities

Year Ended June 30, 2016 (with comparative totals for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Support:				
Contributions		\$ 6,858,826	\$ 6,858,826	\$ 5,760,777
Investment income	\$ 61,392	17,370	78,762	91,931
Net assets released from restriction	4,457,462	(4,457,462)	-	-
Total revenue and support	4,518,854	2,418,734	6,937,588	5,852,708
Expenses:				
Scholarships	5,219,877		5,219,877	5,332,047
Management and general	1,097,613		1,097,613	994,349
Total expenses	6,317,490		6,317,490	6,326,396
Changes in Net Assets	(1,798,636)	2,418,734	620,098	(473,688)
Net Assets, beginning of year	2,132,061	15,860,193	17,992,254	18,465,942
Net Assets, end of year	\$ 333,425	\$ 18,278,927	\$ 18,612,352	\$ 17,992,254

See accompanying notes to financial statements.

The BASIC Fund

Statement of Cash Flows

<i>June 30, 2016 (with comparative totals for 2015)</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 620,098	\$ (473,688)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	2,738	(12,263)
Depreciation	11,582	14,125
Amortization of pledge discount	(72,651)	5,027
Allowance for doubtful accounts	65,000	-
Changes in operating assets and liabilities:		
Contributions receivable	(2,542)	(194,362)
Interest receivable	(8,246)	(6,686)
Prepaid expense	25,869	(39,140)
Accounts payable	(6,211)	10,651
Cash provided (used) by operating activities	635,637	(696,336)
Cash Flows from Investing Activities:		
Purchase of investments	(13,869,653)	(10,827,318)
Proceeds from sale of investments	12,743,689	10,988,616
Purchase of fixed assets	(2,167)	(3,583)
Cash (used) provided by investing activities	(1,128,131)	157,715
Change in Cash	(492,494)	(538,621)
Cash and Cash Equivalents, beginning of year	2,806,477	3,345,098
Cash and Cash Equivalents, end of year	\$ 2,313,983	\$ 2,806,477

See accompanying notes to financial statements.

The BASIC Fund

Notes to Financial Statements

Note 1 - Nature of Fund:

The BASIC Fund (the Fund) is a privately funded program dedicated to broadening the educational opportunities for children by helping low-income families in Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties afford the cost of tuition at private or parochial schools of their choice. The scholarships are offered to students in kindergarten through eighth grade.

The Fund receives the majority of its contributions from individuals and foundations. The Board of Directors, through their personal contributions, fund the administrative and general expenses of the Fund.

Continuing scholarship support is available to students, as long as they meet all academic and admission requirements of the school to which they apply and as long as their families remain financially eligible under the Fund's guidelines.

Note 2 - Significant Accounting Policies:

a. Basis of Presentation and Description of Net Assets

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor - imposed stipulations. These net assets are intended for use of management and the Board of Directors for educational scholarships and general operations. The Board of the Fund has designated the majority of its funds for ongoing support of the Fund's scholarship activity.

Temporarily Restricted Net Assets - the portion of net assets of which use by the Fund is limited by donor - imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Fund.

Permanently Restricted Net Assets - the portion of net assets of which use by the Fund is limited by donor - imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Fund. The Fund has no permanently restricted net assets.

The BASIC Fund

Notes to Financial Statements

b. Recognition of Revenue

Contributions are recorded as revenue at their fair value when the promise to give to the Fund is made. Contributions with donor restrictions are reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Certain contributions restricted by the donor are reported as an increase in unrestricted net assets if the restriction is released in the same reporting period in which the support is received.

Management reviews outstanding contributions receivable on a regular basis and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of donors to make payments. This allowance is based on historical experience and identification of contribution-specific collectibility concerns. Losses incurred from uncollectible donations have not historically been material to the Fund.

c. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and money market funds.

d. Investments

Investments consist primarily of certificates of deposit and mutual funds.

Investments are recorded at fair value, with realized and unrealized gains and losses reflected in the Statement of Activities.

e. Fair Value Measurements

The Fund carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Fund's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

The BASIC Fund

Notes to Financial Statements

f. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 5 years. Renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred.

g. Donated Goods and Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. A number of unpaid volunteers have made significant contributions of their time to the Fund. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

h. Income Taxes

The Fund is a tax exempt organization under Internal Revenue Service Code Section 501(c)(3) and the California tax code.

The Fund follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 for accounting for uncertainty in income taxes. Management evaluated the Fund's tax positions and concluded that the Fund had maintained its tax exempt status and had taken no uncertain tax positions that would require adjustments to the statement of financial position to comply with provisions of this guidance.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

j. Management and General

Management and general represent expenses for salary and overhead related expenses incurred in administering the Fund's scholarship program.

The BASIC Fund

Notes to Financial Statements

k. Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

l. Reclassifications

Certain prior year amounts in the accompanying financial statements and notes have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on the Fund's statement of assets, liabilities and net assets and statement of activities as previously reported.

m. New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee will be required to recognize right-to-use assets and liabilities on their statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for the Fund beginning July 1, 2020. Early application is permitted.

In August 2016, the FASB issued ASU 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. This ASU sets forth the FASB's modifications to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for the Fund as of July 1, 2018. Early application is permitted.

The Fund is currently evaluating the impact of these pronouncements on its financial statements.

n. Subsequent Events

The Fund has reviewed the results of activities for the period of time from its fiscal year ended June 30, 2016 through February 15, 2017, the date of the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

The BASIC Fund

Notes to Financial Statements

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

Due within one year	\$ 1,212,248
Due after one year	1,299,090
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Subtotal	2,511,338
Less unamortized discount	29,548
Less allowance for doubtful accounts	65,000
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	\$ 2,416,790

The long-term portion of contributions receivable has been discounted using a 1.5% discount rate.

At June 30, 2016, contributions receivable includes approximately \$779,548 pledged from the Board of Directors.

Children's Scholarship Fund has expressed intention to match on a one for four basis a supplemental \$148,000 for the 2011 Program, \$160,000 for the 2012 Program \$88,000 in addition to the original \$572,000 grant for the 2013 Program, and \$350,000 for the 2016 Program. A further condition of the Children's Scholarship Fund grant is that all their funding is to be used exclusively for scholarships. These conditional promises to give are recognized as revenue upon receipt.

Note 4 - Investments & Fair Value Measurements:

The amortized cost and estimated fair values of the major components of investment are as follows:

June 30, 2016	Amortized Cost	Fair Value
Certificates of deposit	\$ 12,979,147	\$ 12,983,206
Mutual Funds	857,735	856,290
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	\$ 13,836,882	\$ 13,839,496

At June 30, 2016, all of the investments are valued under ASC 820 using level 2 inputs.

The BASIC Fund

Notes to Financial Statements

Net investment income is comprised of the following at June 30, 2016:

Interest	\$	81,500
Unrealized and realized gains (losses)		(2,738)
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	\$	78,762

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for scholarship awards through the June 30, 2020 for a total of \$18,278,927. Included in that amount is a \$1,000,000 contribution, which along with its related investment earnings, will be used to support scholarships and operations, with a 5% draw each year from the combined principal and earnings, thereon, as needed.

As of June 30, 2016, net assets of \$4,457,462 were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 6 - Related Party Transactions:

The Fund recorded contribution revenue of approximately \$2,489,924 from its Board of Directors for the year ended June 30, 2016.

Note 7 - Concentration of Credit Risk and Support:

The Fund has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of investments and contributions receivable.

Investments consist of certificates of deposit and mutual funds.

All receivables consist primarily of unsecured amounts due from individuals, corporations, and foundations. The credit risk associated with receivables is substantially mitigated by the number of entities comprising the receivable balance.

Note 8 - Commitments and Contingencies:

The Fund has an operating lease agreement for its headquarters in Oakland through July 2020, which requires minimum base lease payments.

The future minimum lease payments under the lease agreement for the office in Oakland are approximately \$382,000.

Rental expense under these agreements for the year ended June 30, 2016 was approximately \$88,000.